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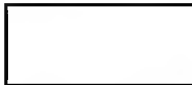
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28 March 1974

MEMORANDUM FOR: General Graham

THROUGH:



SUBJECT: Present State of Play of the Southeast Asia NIO's
Analysis of South Vietnam's Need for Economic
Assistance

1. At present the Southeast Asia NIO is wrestling with one of the more politically charged estimates on South Vietnam which has been hazarded in some time.

2. The question at hand is--what are the political implications of the provision by the United States of various levels of assistance to the GVN? As you know, three levels of aid have been postulated for FY 75. These are the \$450 million (original plan), \$600 million (what I understand to be the administration's view of current need), and \$850 million (Ambassador Martin's view).

3. Given his "druthers", the Southeast Asia NIO would like to give his analysis of what each of these three levels of assistance will do for the economy of SVN, i.e., tackle the problem on purely economic grounds. The DCI, however, is of the opinion that what the community is being paid for is to provide policy makers with a judgment as to what the political implications are of providing or withholding various levels of U.S. assistance. The latter judgment is, of course, a much more difficult one. It is equally obvious that such a judgment (if it can be rendered) will be used in this town for various purposes by various people.

4. The NIO has held several sessions on this estimate to date. In my judgment the economic analytical part of this job has gone about as far as it can go. The economic analysts see the principal elements of the problem in this way:

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a. The war has brought about a very rapid urbanization of a significant part of the population of SVN. As this urbanization occurred artificially, if it is to be maintained it must be propped up by external economic assistance.

b. SVN's economic infrastructure cannot support an armed force of 1.1 million plus a large bureaucracy. It, too, will require economic assistance.

c. Past efforts at stimulating economic growth have been frustrated by world-wide inflation and the related problem of shortages of fuel, food, and fertilizers. There is no likelihood that these problems will go away.

d. There is a tacit recognition that third country infusion of economic investment will proceed slowly. Given their likely judgment that the U.S. is no longer willing to make the long haul effort in RVN that we committed to ROK and ROC, third country support will come very slowly.

5. The conclusions which I think the economic intelligence analysts are inclining toward are these:

a. Staying with the \$450 million figure for RVN will lead to economic stagnation and a slow decline.

b. Going with the \$850 million Martin package will help the situation but will provide no assurance of long-term progress for the GVN unless a high level of aid is provided for a long, long time.

c. And there is the fact that a war is going on. The economists note that the March 1972 offensive wrought havoc on the economy of SVN with consumer demands dropping sharply and investment being all but halted. Hanoi recognizes that should the SVN economy show signs of stability and/or health, a major card they can play is to opt for their big offensive option as they did in 1968 and 1972.

6. The pure economic analysis leads the all-source analyst to the conclusion that if one is given a multiple choice test in which (a) is \$450 million, (b) is \$600 million, and (c) is \$850 million, one will probably answer the question with the nice, safe median figure represented by option (b).

7. The problem is obviously not that simple. As was noted earlier we are dealing with a problem which is primarily political rather than economic in nature. The questions which are raised by the politico-military oriented analysts are quite different than those posed by the

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economic analysts. The former tend to use different criteria in attacking the problem. Among their views are these:

a. There is a sensing among many of the DIA and CIA (OCI/OSR not OER) that the economic analysis is flavored by a belief in the need to achieve the Rostow economic "take-off" point and is married to the idea of the necessity of growth for RVN.

b. The politico-military types consider that pumping more money into SVN may not necessarily be in the GVN's best interests, i.e., if you want to slow down and partially de-urbanize a society, such an effort will be enhanced by reducing funds available to support urban groups. --If you want to reduce the size of the armed forces, limiting economic assistance will indirectly encourage such an effort.

c. They view SVN as overwhelmingly an agrarian society. Economic aid should emphasize that sector of the economy and not the urban areas where the GVN's principal economic problems are found.

d. There is little or no support among DIA/CIA politico-military analysts that the GVN's stability will be seriously endangered in FY 75 by the \$450 million package. This is a view which State apparently does not share.

e. These same analysts seem to feel that too little attention has been given to analyzing, in the perspective of 1974, what are the alternative levels of U.S. assistance designed to do for SVN, i.e., is it to not lose the war or is it to stabilize RVN and achieve economic growth, etc.?

8. Obviously the Southeast Asia NIO has a tiger by the tail. From a community viewpoint, I think [] is doing the very best with an extremely difficult and possibly insoluble problem. In effect he is being asked to answer what may well be the wrong question. The DCI wants to know the political implications of a U.S. decision to support one of three levels of funding--\$450, \$600, or \$850 million. It may well be that the better questions would be:

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a. What is U.S. economic assistance to RVN in 1975 and beyond designed to do?

b. As U.S. resources are obviously finite, what sector of the GVN economy should be emphasized--agriculture, industry in urban areas, shoring up the military and civil service element of the society?

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c. What are the \$450, \$600, and \$850 million packages designed to do and do they relate to our present views of 8a. and b.?

9. I think that this is a particularly interesting issue both as a substantive SE Asia problem and from the point of view of the type of problem which the DCI is trying to tackle. I will keep you informed as it progresses.

s/



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